



May 27, 2004

CONFIDENTIAL

Linda A. Watters
Commissioner
Office of Financial & Insurance Services
State of Michigan
P.O. Box 30220
Lansing, Michigan

Re: Purchase of Certain Assets of The Wellness Plan, Inc. (Macomb County Membership)

Dear Commissioner Watters:

This letter ("Letter") is in response to your letter dated May 12, 2004 regarding the opportunity to purchase the rights to serve any of the membership of The Wellness Plan, Inc., a Michigan corporation and health maintenance organization ("TWP") which currently is in rehabilitation. Midwest Health Plan, Inc., a Michigan corporation and licensed health maintenance organization, ("Buyer") hereby offers to acquire all of the membership of TWP in the existing Macomb County service area of TWP in accord with the terms and conditions set forth below.

Description of Buyer

Buyer has been licensed as a health maintenance organization in Michigan since 1998, and has served Medicaid patients as a Medicaid contractor for over 10 years. The current service area of the Buyer includes Wayne, Oakland, Macomb and Washtenaw Counties in which over 52,000 Medicaid enrollees have selected Buyer as the health plan through which they obtain their Medicaid services. Buyer meets all current financial requirements for operation of a health maintenance organization, and would continue to do so if the offer presented in this Letter is accepted and approved.

Offer by Buyer

A. Assets to Be Purchased

Buyer offers to purchase the right to serve TWP members residing in Macomb County, Michigan under a transfer of such members to membership in Buyer's health maintenance organization plan on or before the effective date of the new Medicaid contract referenced in your letter. Included as part of the transfer of members would be the provision of all of TWP's records related to such members to Buyer as necessary for the provision of continuity of care to such members. A TWP member shall be considered transferred to Buyer effective on the date that Buyer is entitled to receive capitation from MDCH for such member as reflected on MDCH's enrollment tape.

Buyer's offer does not include assumption of any liabilities for (1) services provided to any member which accrues and relate to dates of service prior to the date of transfer of a member to Buyer's health maintenance organization, and (2) medical claim liabilities with respect to any member admitted to a health facility whose admission begins prior to and continues after the date

of transfer of membership (including services provided to the newborn child of a member born during an admission which began prior to the date of the transfer of the member to Buyer's health maintenance organization), except for any medical claim liability which accrue for dates of service after any such member has been discharged from the health facility.

Buyer assumes no liabilities of TWP and the transfer of the members would be free and clear of any liens or encumbrances.

B. Purchase Price:

The amount Buyer will pay for such members is \$100 (one hundred dollars) per member who remains with Buyer's health maintenance plan for 3 (three) full months after the effective date of the new Medicaid contract referenced in your letter, less any initial payment by Buyer of \$50.00 (fifty dollars) for each TWP member initially transferred under this purchase arrangement. The initial payment by Buyer would be made 45 (forty five) days after the initial transfer of such members. The final payment would be made 30 (thirty) days after the completion of the 3 (three) full months of membership after the effective date of the new Medicaid contract referenced in your letter.

C. Approvals and Contingencies

Buyer's offer has been approved by its Board of Directors and if accepted will not require further action by Buyer's Board of Directors. This offer is contingent on obtaining all applicable necessary government approvals, including, without limitation, approvals from MDCH, OFIS, and the Rehabilitation Court with respect to the purchase of the transfer of the TWP members and the transfer of the members, and the other contingencies set forth below in the Response to Request for Demonstration.

Response to Request for Demonstration.

In your letter, you requested that interested parties demonstrate certain facts to the Rehabilitator as follows:

1. The financial (cash) resources are readily available to consummate the transaction.

Buyer's Demonstration: As of March 31, 2004, Buyer had \$15,163,000 total capital and surplus available to undertake the purchase proposed by the offer presented in this Letter which is a maximum amount of approximately \$500,000 assuming that TWP has 5000 members in Macomb County. Exhibit A is a copy of Buyer's last quarterly financial statement which demonstrates cash resources are readily available to consummate the transaction.

2. The potential buyers will continue to meet all financial requirements after the completion of the transaction.

Buyer's Demonstration: The financial requirements that the Buyer would be required to meet after the completion of the transaction are the following:

A. Risk Based Capital("RBC"): RBC requirement provides that a plan have a RBC ratio in excess of 200%. As shown in its calculation of RBC as of December 31, 2003, Buyer had a RBC ratio in excess of 457%, and remains in excess of 457% as of the date of this letter. After undertaking the purchase proposed by this Letter, assuming that all members of TWP in Macomb County remain with Buyer after October 1, 2004, or such later date as may be determined as set forth below, the Buyer still would have a RBC ratio in excess of 400% because of a projected increase in capital and surplus of \$3,000,000 prior to October 1, 2004.. Attached as Exhibit B is the calculation of Buyer's RBC ratio as of December 31, 2003.

B. Working Capital: Buyer is required by law to continue to have positive working capital. As shown in Exhibit A, the first quarter 2004 financial statement, Buyer had working capital of \$13,961,000. After payment of an estimated \$500,000 to acquire the Macomb County members of TWP, Buyer will still have positive working capital.

C. Buyer is required to maintain \$1,500,000 net worth because less than 10% of its claims are for out of network services. Plan easily meets this requirement. As shown in Exhibit A, as of March 31, 2004, Buyer had net worth of \$15,163,000, or more ten (10) times the required amount. After the expenditure of the approximately \$500,000 maximum amount to be paid after the completion of the transaction, assuming TWP membership of approximately 5000 in Macomb County and the projected \$3,000,000 increase Buyer's capital and surplus by October 1, 2004, Buyer will remain in compliance with this net worth requirement.

3. The likelihood the potential buyers will receive a new Medicaid contract effective October 1, 2004.

Buyer's Demonstration: Buyer has contracted with the Medicaid program for over 10 years and meets all of the requirements in the bid proposal for a new Medicaid contract. While it is impossible to predict with any certainty which of the bidders will be selected under the bid proposal for the new Medicaid contract because of the discretion allowed to MDCH under the bid proposal, Buyer fully expects to be a successful bidder in that process and expects to receive a new Medicaid contract effective October 1, 2004 or such later date on which the new Medicaid contract is implemented.

4. The potential buyers' provider networks are adequate to acquire more members.

Buyer's Demonstration: Buyer's service area currently includes Macomb County. Buyer's provider network for Macomb County is set forth in Exhibit C, and includes 2 hospitals and 50 primary care physicians, as well as other contracting providers. The ratio of current members to existing network primary care physicians in Macomb County is 150 members per primary care physician. After the acquisition of all of TWP's Macomb County membership, the ratio of members to physicians would be 250 members per primary care physician, assuming 5000 TWP members in Macomb County.

Exhibit C lists the full complement of Buyer's provider network in Macomb.

5. To ensure continuity of care to TWP members, the extent to which the potential buyers' provider network overlaps with TWP network.

Buyer's Demonstration: Attached as Exhibit C is a copy of Buyer's current Macomb County network, marked to show how this network overlaps with the current network of TWP. This Exhibit shows that in Macomb County, 2 of TWP's network hospitals are currently contracted with Buyer, and 18 of buyer's 50 current contracted primary care physicians are also in are current th TWP's network.

Upon acceptance and approval of Buyer's bid for the transfer of TWP members in Macomb County, Buyer agrees to contact any providers currently contracting with TWP which do not currently contract with Buyer, and will attempt to contract with such provide in order to maximize continuity of care. The only exception would be with regard to laboratory services because of an exclusive contractual arrangement that Buyer has with its current laboratory services provider.

6. The likelihood the potential buyers will obtain the necessary regulatory approvals (i.e. OFIS and DCH) for the transfer of members.

Buyer's Demonstration: Buyer purchased the transfer of approximately 10,000 members from Ultimed HMO at the time of the last Medicaid contract bid process, and received the necessary

regulatory approvals of OFIS and MDCH for the transfer of such members. Thus, Buyer is familiar with the process for obtaining such approvals and does not see any difficulty in obtaining such approvals for acquisition of TWP members in Macomb County in light of the existing capacity in Buyer's network.

7. The extent of any contingencies regarding the completion of the transaction.

Buyer's Demonstration: The Buyer offers to complete the transaction based on the following contingencies:

A. Buyer will not assume any liabilities of TWP as a result of the transaction.

B. The Rehabilitator and Buyer will cooperate with each other in developing communications to members of TWP residing in Macomb County advising them of the transfer of their membership to Buyer effective on the date of the new Medicaid contract.

C. Receipt of all necessary regulatory approvals from OFIS and MDCH, and receipt of any other statutory or regulatory approvals necessary for the transfer of TWP's Macomb County membership. Buyer will make good faith efforts to obtain all such approvals.

D. Selection of Buyer as a successful bidder for the new Medicaid contract for a service area including Macomb County, for the period beginning October 1, 2004 or such later date as the new Medicaid contract is implemented by MDCH.

E. Approval of the transaction by the TWP Rehabilitation Court.

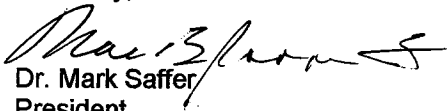
8. The extent the purchase price is subject to any potential adjustments in subsequent periods.

Buyer's Demonstration: The purchase price offered by Buyer is \$100.00 (One hundred dollars) multiplied by the number of active Medicaid members of TWP's existing Medicaid membership in Macomb County who, after being transferred to Buyer, continue their enrollment with Buyer into the contract year beginning October 1, 2004 (or such other specified effective date of the MDCH Medicaid contract, which ever is later) and remain enrolled as a member of Buyer for a period of three full months after such effective date.

An initial cash payment of \$50 (fifty dollars) per member would be paid for each TWP member transferred to membership with Buyer on or before the effective date of the new Medicaid contract, with such payment being made 45 (forty-five) days after the transfer of the members. The final purchase price would be determined based on the number of TWP members who have been transferred to membership with Buyer, calculated on the basis of \$100 per each such member who remains enrolled with Buyer for a period of 3 (three) full months following the effective date of the new Medicaid contract, less any amount previously paid based on the number of TWP members transferred to Buyer. Any additional amount payable by Buyer after the completion of 3 (three) full months of membership with Buyer after the effective date of the new Medicaid contract will be paid 30 (thirty) days after completion of such 3 (three) full months of membership.

If you have any questions concerning this bid offer or you require additional information, please contact Allen Kessler at Midwest Health Plan, Inc. His telephone number is (313) 586-6064.

Sincerely,


Dr. Mark Saffer
President
Midwest Health Plan